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SEC 18000643

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	May 31, 2017
Estimated average burden hours per response.....	12.00

SEC  
**ANNUAL AUDITED REPORT**  
**FORM X-17A-5**  
**PART III**  
Processing Section  
MAY 24 2018

SEC FILE NUMBER
8-65845

**FACING PAGE** Washington DC  
**Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 1/1/2017 AND ENDING 12/31/17  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: CANDLEWOOD SECURITIES LLC  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
**600 SUPERIOR AVE., SUITE 1800**

OFFICIAL USE ONLY
FIRM I.D. NO.

(No. and Street)  
**CLEVELAND OHIO 44114**  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
STEPHEN J. LATKOVIC, 216-472-6642  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
**SKODA MINOTTI & CO**

(Name - if individual, state last, first, middle name)  
**6685 BETA DRIVE MAYFIELD HEIGHTS OH 44143**  
(Address) (City) (State) (Zip Code)

**CHECK ONE:**

- ☒ Certified Public Accountant
- ☐ Public Accountant
- ☐ Accountant not resident in United States or any of its possessions.

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

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enc  
5/30/18

## OATH OR AFFIRMATION

I, STEPHEN J. LATKOVIC, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CANDLEWOOD SECURITIES LLC, as of DECEMBER 31, 202017, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

[Signature]  
Signature  
Chief Compliance Officer  
Title

[Signature]  
Notary Public

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Equity.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☒ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.



DEBORAH LIPSTREU  
NOTARY PUBLIC  
STATE OF OHIO  
Comm. Expires  
11-15-2022

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**ANNUAL AUDIT REPORT**

For the Period from January 1, 2017 to December 31, 2017

Candlewood Securities LLC  
**(Name of Respondent)**

600 Superior Ave., East, Ste. 1800  
Cleveland, Ohio 44114  
**(Address of Principal Executive Office)**

Mr. Stephen Latkovic  
Candlewood Securities LLC  
600 Superior Ave., East, Ste. 1800  
Cleveland, Ohio 44114  
(216) 472-6660  
**(Name and address of person authorized to receive notices and  
communications from the Securities and Exchange Commission)**

# **CANDLEWOOD SECURITIES, LLC**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

TO THE MEMBER  
CANDLEWOOD SECURITIES, LLC

**Opinion on the Financial Statements**

We have audited the accompanying statement of financial condition of Candlewood Securities, LLC (the Company) as of December 31, 2017, and the related statements of income, changes in member's equity, and cash flows for the year then ended, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of Candlewood Securities, LLC as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Supplemental Information**

The supplemental information has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with Rule 17a-5 under the Securities Exchange Act of 1934. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

SKODA MINOTTI & CO.

Cleveland, Ohio  
February 23, 2018

We have served as Candlewood Securities, LLC's auditor since September 28, 2016.

CANDLEWOOD SECURITIES, LLC

Statement of Financial Condition

December 31, 2017

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**ASSETS**

Cash	\$ 60,245
Prepaid expenses	<u>11,759</u>
TOTAL ASSETS	<u>\$ 72,004</u>

**LIABILITIES AND MEMBERS' EQUITY**

Accounts payable	\$ 1,173
Accrued commissions	<u>34,344</u>
TOTAL LIABILITIES	35,517
MEMBERS' EQUITY	<u>36,487</u>
TOTAL LIABILITIES AND MEMBER'S EQUITY	<u>\$ 72,004</u>

*See accompanying Notes to Financial Statements*

CANDLEWOOD SECURITIES, LLC

Statement of Operations

For the Year Ended December 31, 2017

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REVENUES	\$ 917,896
OPERATING EXPENSES	
Legal and Professional Fees	40,633
Commission Expense	812,276
Regulatory Expense	15,552
Occupancy and Shared Expenses	5,410
Fidelity Bond Expense	1,064
Technology, Data & Communications	1,185
Other	<u>268</u>
TOTAL EXPENSES	<u>876,388</u>
NET INCOME	<u>\$ 41,508</u>

*See accompanying Notes to Financial Statements*

CANDLEWOOD SECURITIES, LLC  
Statement of Changes in Member's Equity  
For the Year Ended December 31, 2017

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BALANCE, January 1, 2017	\$ 44,979
Distributions	(50,000)
Net Income	<u>41,508</u>
BALANCE, December 31, 2017	<u>\$ 36,487</u>

*See accompanying Notes to Financial Statements*



CANDLEWOOD SECURITIES, LLC

Statement of Cash Flows

For the Year Ended December 31, 2017

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CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 41,508
Adjustments to net income in operations:	
Change in assets and liabilities:	
Decrease in accounts receivable	30,563
Increase in prepaid expenses	(3,308)
Decrease in accounts payable	(2,294)
Increase in accrued commissions	<u>6,379</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>72,848</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Member's distributions	<u>(50,000)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(50,000)</u>

NET INCREASE IN CASH 22,848

CASH, beginning of year 37,397

CASH, end of year \$ 60,245

*See accompanying Notes to Financial Statements*

## CANDLEWOOD SECURITIES, LLC

### Notes to Financial Statements

December 31, 2017

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#### **NOTE A - Summary of significant accounting policies**

##### Business activity

Candlewood Securities LLC (the "Company") is a registered broker-dealer under the Securities Exchange Act of 1934. The Company provides general investment banking and advisory services to a wide array of clients, ranging from start-ups to publicly traded companies. Its broker-dealer services focus primarily on private placements for closely-held companies or institutional investment funds.

The Company was formed on September 9, 2002, as an Ohio limited liability company; as such, its sole member possess limited personal liability for obligations of the Company. The Company will continue to exist perpetually unless terminated earlier by its sole member.

As a member of the Financial Industry Regulatory Authority (FINRA), the Company is exempt from the requirements of Rule 15c3-3 of the Securities and Exchange Commission (SEC) because it operates under Section (k)(2)(i) of that Rule.

The Company is required to maintain a minimum net capital balance (as defined) of \$5,000, pursuant to the SEC's Uniform Net Capital rule 15c3-1. The Company's net capital balance was \$24,728 at December 31, 2017. The Company must also maintain a ratio of aggregate indebtedness (as defined) to net capital of not more than 15 to 1. The Company's ratio was 1.43 to 1 at December 31, 2017.

##### Basis of accounting

The financial statements of the Company have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

##### Income taxes

The Company, with the consent of its members, was formed as a limited liability company. The operating agreement, construed under Ohio laws, states that the Company will be treated as a partnership for federal and state income tax purposes. In lieu of paying taxes at the company level, the members of a limited liability company are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal or state income taxes has been included in these financial statements.

The Company follows the accounting guidance for uncertainty in income taxes using the provisions of Accounting Standards Codification 740, Income Taxes (ASC 740). Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities.

As of December 31, 2017 the Company had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. It is the Company's policy to include any penalties and interest related to income taxes in its operating expenses, however, the Company currently has no penalties or interest related to income taxes. The earliest year that the Company is subject to examination is the year ended December 31, 2014.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue recognition

Revenue is recognized upon the completion of a transaction.

Evaluation of subsequent events

The Company has evaluated events and transactions that occurred between December 31, 2017 and February 23, 2018 which is the date that the financial statements were issued for possible recognition or disclosure in the financial statements. There were no material subsequent events.

**NOTE B - Related party**

The Company is party to a services agreement with Candlewood Partners LLC., its sole member, whereby the Company pays \$440 per month for rent and utilities incurred by Candlewood Partners on behalf of the Company. Expenses of \$5,280 were reported by the Company related to this agreement for the year ended December 31, 2017.

CANDLEWOOD SECURITIES, LLC

Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission

As of December 31, 2017

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**COMPUTATION OF NET CAPITAL**

Total member's equity from statement of financial condition	\$ 36,487
Deductions and/or charges:	
Prepaid expenses	<u>(11,759)</u>
Total non-allowable assets	<u>(11,759)</u>
Net capital before haircuts on securities positions	24,728
Haircuts on securities	<u>—</u>
<b>NET CAPITAL</b>	<b><u>\$ 24,728</u></b>

**AGGREGATE INDEBTEDNESS**

Total liabilities from statement of financial condition	\$ <u>35,517</u>
Percentage of aggregate indebtedness to net capital	1.43 to 1.0

**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**

Minimum net capital required (6 2/3% of total aggregate indebtedness)	\$ 2,369
Minimum dollar required net capital	<u>\$ 5,000</u>
Net capital requirement	<u>\$ 5,000</u>
<b>EXCESS NET CAPITAL</b>	<b><u>\$ 19,728</u></b>

**Statement Pursuant to Rule 17a-5(d)(2)(iii)**

Reconciliation with Company's computation of net capital as presented in  
Part IIA of Form X-17A-5 as of December 31, 2017

Net Capital as reported in Company's Part IIA (unaudited) FOCUS report	\$59,072
Net Capital as reported above	<u>24,728</u>
Difference	<u>\$34,344</u>

A reconciliation to the Company's Computation of Net Capital as reported above from Part IIA of Form X-17a-5 consists of an increase in Accounts Payable of \$34,344, resulting from an adjusting journal entry recorded by the Company.



**SKODA MINOTTI & CO.**  
CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT OF INDEPENDENT REGISTERED ACCOUNTANTS ON**  
**APPLYING AGREED-UPON PROCEDURES**

TO THE MEMBER  
CANDLEWOOD SECURITIES, LLC

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying General Assessment Reconciliation (Form SIPC-7) to the Securities Investor Protection Corporation (SIPC) for the year ended December 31, 2017, which were agreed to by Candlewood Securities, LLC (CWS) and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc. and SIPC, solely to assist you and the other specified parties in evaluating CWS's compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7). CWS's management is responsible for CWS's compliance with those requirements. The agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7 with respective cash disbursement record entries, noting no differences;
2. Compared the amounts reported on the audited Form X-17A-5 (FOCUS Report) for the year ended December 31, 2017, as applicable, with the amounts reported in Form SIPC-7 for the year ended December 31, 2017, noting no differences;
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers, noting no differences;
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers supporting the adjustments, noting no differences; and
5. Compared the amount of any overpayment applied to the current assessment with the Form SIPC-7 on which it was originally computed, noting no differences.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

SKODA MINOTTI & CO.

Cleveland, Ohio  
February 23, 2018

Akron | 3320 W Market Street, Suite 300, Fairlawn, Ohio 44333 | ph 330 668 1100 | fx 440 646 1615

Cleveland | 6685 Beta Drive, Mayfield Village, Ohio 44143 | ph 440 449 6800 | fx 440 646 1615

Skoda Minotti | Certified Public Accountants | [www.skodaminotti.com](http://www.skodaminotti.com)

AKRON | CLEVELAND | TAMPA

**SIPC-7**

(35-REV 6/17)

SECURITIES INVESTOR PROTECTION CORPORATION  
P.O. Box 92185 Washington, D.C. 20090-2185  
202-371-8300  
**General Assessment Reconciliation**

**SIPC-7**

(35-REV 6/17)

For the fiscal year ended 12/31/2017

(Read carefully the instructions in your Working Copy before completing this Form)

**TO BE FILED BY ALL SIPC MEMBERS WITH FISCAL YEAR ENDINGS**

1. Name of Member, address, Designated Examining Authority, 1934 Act registration no. and month in which fiscal year ends for purposes of the audit requirement of SEC Rule 17a-5:

12\*12\*\*\*\*\*2175\*\*\*\*\*MIXED AADC 220  
65845 FINRA DEC  
CANDLEWOOD SECURITIES LLC  
600 SUPERIOR AVE E STE 1800  
CLEVELAND, OH 44114-2854

Note: If any of the information shown on the mailing label requires correction, please e-mail any corrections to form@sipc.org and so indicate on the form filed.

Name and telephone number of person to contact respecting this form.

Dalbir Lipstreich  
216-472-6668

2. A. General Assessment (Item 2e from page 2)

\$ 1376.84

B. Less payment made with SIPC-6 filed (exclude interest)

( 203.40 )

2/14/17  
Date Paid

C. Less prior overpayment applied

( - 0 - )

D. Assessment balance due or (overpayment)

1173.44

E. Interest computed on late payment (see instruction E) for \_\_\_\_\_ days at 20% per annum

0

F. Total assessment balance and interest due (or overpayment carried forward)

\$ 1173.44

G. PAID WITH THIS FORM:

Check enclosed, payable to SIPC  
Total (must be same as F above)

\$ 1173.44

H. Overpayment carried forward

\$(                      )

3. Subsidiaries (\$) and predecessors (P) included in this form (give name and 1934 Act registration number):

The SIPC member submitting this form and the person by whom it is executed represent thereby that all information contained herein is true, correct and complete.

Candlewood Securities LLC  
(Name of Corporation, Partnership or other organization)

Dalbir Lipstreich  
(Authorized Signature)

Controller  
(Title)

Dated the 19<sup>th</sup> day of January, 20 18.

This form and the assessment payment is due 60 days after the end of the fiscal year. Retain the Working Copy of this form for a period of not less than 6 years, the latest 2 years in an easily accessible place.

**SIPC REVIEWER**

Dates:

Postmarked \_\_\_\_\_

Received \_\_\_\_\_

Reviewed \_\_\_\_\_

Calculations \_\_\_\_\_

Documentation \_\_\_\_\_

Forward Copy \_\_\_\_\_

Exceptions:

Disposition of exceptions:

**DETERMINATION OF "SIPC NET OPERATING REVENUES"  
AND GENERAL ASSESSMENT**

Amounts for the fiscal period  
beginning 1/1/2017  
and ending 12/31/2017

Eliminate cents

Item No.

2a. Total revenue (FOCUS Line 12/Part IIA Line 9, Code 4030)

\$ 917,896.00

2b. Additions:

- (1) Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above.
- (2) Net loss from principal transactions in securities in trading accounts.
- (3) Net loss from principal transactions in commodities in trading accounts.
- (4) Interest and dividend expense deducted in determining Item 2a.
- (5) Net loss from management of or participation in the underwriting or distribution of securities.
- (6) Expenses other than advertising, printing, registration fees and legal fees deducted in determining net profit from management of or participation in underwriting or distribution of securities.
- (7) Net loss from securities in investment accounts.

Total additions

2c. Deductions:

- (1) Revenues from the distribution of shares of a registered open end investment company or unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts, and from transactions in security futures products.
- (2) Revenues from commodity transactions.
- (3) Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions.
- (4) Reimbursements for postage in connection with proxy solicitation.
- (5) Net gain from securities in investment accounts.
- (6) 100% of commissions and markups earned from transactions in (i) certificates of deposit and (ii) Treasury bills, bankers acceptances or commercial paper that mature nine months or less from issuance date.
- (7) Direct expenses of printing advertising and legal fees incurred in connection with other revenue related to the securities business (revenue defined by Section 16(9)(L) of the Act).
- (8) Other revenue not related either directly or indirectly to the securities business.  
(See Instruction C):

(Deductions in excess of \$100,000 require documentation)

- (9) (i) Total interest and dividend expense (FOCUS Line 22/PART IIA Line 13, Code 4075 plus line 2b(4) above) but not in excess of total interest and dividend income.

\$ - 0 -

- (ii) 40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960).

\$ - 0 -

Enter the greater of line (i) or (ii)

Total deductions

2d. SIPC Net Operating Revenues

\$ 917,896.00

2e. General Assessment @ .0015

\$ 1376.84

(to page 1, line 2.A.)



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
REQUIRED BY SEC RULE 17a-5 FOR A BROKER-DEALER CLAIMING AN  
EXEMPTION FROM SEC RULE 15c3-3

TO THE MEMBER  
CANDLEWOOD SECURITIES, LLC

We have reviewed management's statements, included in the accompanying Assertions Regarding Exemption Provisions from SEC Rule 15c3-3, in which (1) Candlewood Securities, LLC (the Company), identified the following provisions of 17 C.F.R. § 15c3-3(k) under which the Company claimed an exemption from 17 C.F.R. § 240.15c3-3: paragraph (k)(2)(i) (the "exemption provisions") and (2) the Company stated that the Company met the identified exemption provisions throughout the most recent fiscal year without exception. The Company's management is responsible for compliance with the exemption provisions and its statements.

Our review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and, accordingly, included inquiries and other required procedures to obtain evidence about the Company's compliance with the exemption provisions. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's statements. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to management's statements referred to above for them to be fairly stated, in all material respects, based on the provisions set forth in paragraph (k)(2)(i) of Rule 15c3-3 under the Securities Exchange Act of 1934.

SKODA MINOTTI & CO.

Cleveland, Ohio  
February 23, 2018



Candlewood Securities LLC  
600 Superior Ave East, Suite 1800  
Cleveland, Ohio 44114

February 23, 2018

**Candlewood Securities LLC**  
**SEC RULE 15c3-3 EXEMPTION REPORT**

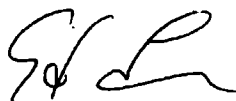
To the best of its knowledge and belief, Candlewood Securities LLC states the following:

Candlewood Securities LLC is exempt from SEC Rule 15c3-3 (the Customer Protection Rule) pursuant to exemptive paragraph 15c3-3(k)(2)(i).

Candlewood Securities LLC has met the identified exemptive provision noted above throughout the most recent fiscal year of 2017 without exception.

I, Stephen J. Latkovic, affirm that, to the best of my knowledge and belief, this Exemption Report is true and correct.

Sincerely,

A handwritten signature in black ink, appearing to be 'SJL' with a stylized flourish at the end.

Stephen J. Latkovic  
Managing Director/CCO